



Nova Scotia

ANNUAL REPORT

*for the fiscal year
ending Dec. 31, 1989*

Nova Scotia
Dairy Commission

91-03134/

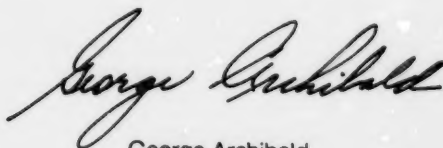
His Honour
The Honourable Lloyd R. Crouse, P.C.
Lieutenant-Governor of the Province of Nova Scotia
Government House
Halifax, Nova Scotia

Dear Sir:

I have the honour to transmit herewith the Annual Report of the
Nova Scotia Dairy Commission for the year 1989.

I am, Your Honour,

Yours very truly,

A handwritten signature in dark ink, appearing to read "George Archibald". The signature is fluid and cursive, with the first name "George" written in a larger, more prominent script than the last name "Archibald".

George Archibald

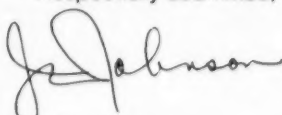


The Honourable George Archibald
Minister of Agriculture and Marketing
P.O. Box 190
Halifax, Nova Scotia
B3J 2M4

Sir:

We have the honour of submitting herewith the Annual Report of the Nova Scotia Dairy Commission for the fiscal year ending December 31st, 1989 pursuant to the provisions of Section 17 of the Dairy Commission Act.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "J.D. Johnson".

J.D. Johnson
Chairman

A handwritten signature in cursive script, appearing to read "G.V. Corneau".

G.V. Corneau
Manager



Commission Members

J.D. Johnson — Chairman
G.A. Francis — Vice Chairman
W. McCurdy — Member
J.M. Killawee — Member
G.W. Butt — Member

Staff

G.V. Comeau — Manager
P.M. Green — Accountant
E.L. Faulkner — Secretary
E.E. MacLean — Accounting Clerk

INTRODUCTION

The Nova Scotia Dairy Commission provides a regulatory and administrative service on behalf of the dairy industry in Nova Scotia. The Commission works closely with producers, processors, the Department of Agriculture and Marketing, and the Canadian Milk Supply Management Committee. Together they develop regulations and policies that meet the needs of the industry and are consistent with the objectives of ensuring that efficient producers receive a fair return for their product and consumers have a continuous supply of quality dairy products at reasonable prices.

Formed in June 1967, the Commission administers the Dairy Commission Act. Commissioners are appointed to three year terms by the Governor in Council. The Chairman's appointment is full time, the other Commissioners are part time. One member of the Commission is a dairy farmer, one is a processor, and the other three are persons who are not associated with the dairy industry. The Chairman and Vice Chairman are designated by the Governor in Council.

The Commission underwent several changes in 1989. For the first part of the year the Commission derived its legislative authority under Part XVIII of the Agriculture and Marketing Act. In June 1989 the Dairy Commission Act was adopted by the Nova Scotia Legislature. This Act now provides the Dairy Commission with its legislative authority. A new Commission was appointed under the Act. Mr. Jack Johnson was appointed the first full time Chairman in the history of the Commission. Mr. Ged Francis was appointed Vice Chairman, Mr. William McCurdy was appointed as a producer representative, Mrs. Janet Killawee and Mr. George Butt were appointed Commissioners. Francis, Killawee, and Butt were members of the previous Commission.

Some staff changes also took place during 1989. Mr. Roger Mason retired on June 1, 1989, after 22 years of dedicated service to the Nova Scotia Dairy Commission and the dairy industry. Mr. Gabriel Comeau was appointed to the position of Commission Manager as of June 1, 1989.

SUMMARY OF MAIN ACTIVITIES

Early in 1989 the Commission was involved with a Dairy Industry Study, which was coordinated by the Nova Scotia Milk Producers Association and funded in part by the Nova Scotia Dairy Commission. The final report prepared by consultant David Kirk, was released in February 1989. Many of the recommendations in Mr. Kirk's report were adopted during 1989.

With the adoption of the new legislation, the Commission was required to develop a set of regulations. These were developed and distributed to the industry in the fall of 1989.

The Dairy Commission Act called for the establishment of a Dairy Industry Advisory Committee. This committee was appointed and three meetings were held in 1989. The primary mandate of the committee is to advise the Commission regarding fluid quota regulations, but it has proven to be a useful forum for discussing questions which are of concern to producers, processors, and government.

At the end of 1989 the Committee was composed of the following persons: Chairman Jack Johnson, James Austin, John Van de Riet, David Sweeney, Gerald Fulton, Ernest Fage, Douglas Bailey, Casey Hoogeveen, James MacConnell, James Cook, Tony Prinsen, Rollie Haymar, Jack Redden, and secretary Gabriel Comeau.

The Commission continued to be responsible for the administration of the Market Sharing Quota Program and the Price Equalization Program.

DAIRY INDUSTRY OVERVIEW

The Dairy Industry in Nova Scotia is the largest segment of the Nova Scotia agriculture industry. Dairy producers in Nova Scotia include those who sell whole milk from the farm and those who sell only farm-separated cream. Milk producers, that is, those who sell whole milk, may be further differentiated on the basis of the utilization of and payment for the milk that they produce. They may be fluid or industrial milk producers.

Milk and cream consumed in liquid form is referred to as fluid milk for payment purposes. Milk and cream consumed in products such as yogurt, ice cream, cottage cheese, cheddar cheese, skim milk powder, and butter is identified as industrial milk. Farm-separated cream is designated for making butter.

Fluid milk producers hold both fluid quota and Market Sharing Quota (MSQ). They receive payment for a portion of their fluid quota shipments at fluid price and the balance of their shipments at an industrial milk classification. Industrial milk producers and cream producers hold only MSQ, as all of their shipments are classified for industrial usage. Fluid and industrial milk producers must meet qualifying standards to receive a license from the Commission to ship milk.

Table I
Total Milk Shipments to Processors in Litres

	Fluid Milk Producers	Industrial Milk Producers	Total	Licensed Farms
1989	170 500 370	2 509 448	173 009 818	577
1988	174 749 666	2 576 505	177 326 171	589
1987	172 588 160	1 997 862	174 586 022	601
1986	175 015 215	464 149	175 479 364	603
1985	168 227 955	71 610	168 299 565	609
1984	171 813 782	305 455	172 119 237	615
1983	164 330 487	410 111	164 740 598	630
1982	170 674 231	441 310	171 115 541	645
1981	169 649 931	535 515	170 185 446	656
1980	167 355 149	1 172 251	168 527 400	675

CREAM PRODUCTION

Farm-separated cream production is declining owing in part to lower returns compared to industrial and fluid milk and to a shortage of MSQ. Five new producers began shipping cream in 1989 with a free allotment of quota.

Prices for farm-separated cream increased in August to \$2.46 per pound for Special Grade from \$2.43. The number of creameries in Nova Scotia decreased to two from three in 1989, as Scotsburn stopped receiving separated cream at its Amherst plant. Cream statistics below apply to shipments of farm-separated cream only.

Table II
Shipments to Nova Scotia Processors
by Cream Producers

Year	Butterfat(kg)	Residency of Producers as of August		Total
		N.S.	N.B.	
1989	89 318	95	5	100
1988	114 270	112	7	119
1987	177 400	131	9	140
1986	225 164	171	12	183
1985	219 247	181	14	195
1984	223 421	188	14	202
1983	224 934	202	15	217
1982	236 823	243	14	257

MILK UTILIZATION

Consumption of fluid milk in Nova Scotia decreased slightly in 1989. Trends towards lower fat consumption are evident in the declining sales of whole milk and increases in the sale of partly skimmed and skim milk.

Sales to Newfoundland decreased by 22.8 per cent as higher production by Newfoundland producers outweighed increases in Newfoundland per capita milk consumption. Sales to Newfoundland represented 3.2 per cent of the combined fluid sales of Nova Scotia producers in 1989 compared to 4.2 per cent in 1988.

Total Nova Scotia fluid milk sales of 109 542 686 litres in 1989 compares with 111 413 724 litres in 1988, a decrease of 1.7 per cent. Fluid milk sales represented 66 per cent of total milk shipments by fluid producers. The balance of milk was used in the manufacture of products such as yogurt, cottage cheese, ice cream and mixes, cheddar, gouda, and feta cheese, skim milk powder, butter, whey powder, and condensed whey.

Table III
Product Sales within Nova Scotia

	1989 (Litres)	1988 (Litres)	Increase/ Decrease %
Standard milk	34 694 114	39 085 520	- 11.2
Partly skimmed milk	55 781 020	54 224 746	+ 2.9
Skim milk	8 798 839	8 207 575	+ 7.2
Buttermilk	300 544	263 872	+ 13.9
Chocolate milk	4 821 541	4 704 477	+ 2.5
Blend cream	2 501 192	2 501 132	0.0
Coffee cream	1 279 732	1 083 071	+ 18.2
Whipping cream	486 978	496 518	- 1.9
Sour cream	330 177	303 311	+ 8.9
Egg nog	548 549	543 502	+ 0.9
Total	109 542 686	111 413 724	- 1.7

Litre sales for 1988 have been adjusted slightly from the previous annual report to reflect an audit correction.

MILK PRICING

The Commission establishes prices for each type and container size for milk and cream sold by processors in Nova Scotia. To prevent destabilization in the market, the listed wholesale price is also the minimum price at which milk may be resold to the public.

With the assistance of a major accounting firm, a thorough analysis of all processor costs associated with the production and distribution of fluid milk is undertaken on an annual basis and monitored during the year. The allowable rate of return takes into consideration that this is a regulated industry.

Effective January 1, the Commission approved a one-cent-per-litre increase to producers, and on September 3, 1989, approved a further four-cent increase, 1.15 cents to producers and 2.85 cents to processors.

Table IV
Commission Wholesale and Minimum Retail Price
for Standard Milk (3.25 Per Cent Butterfat)

	Nova Scotia Mainland	Cape Breton Island	Effective Date
4-litre pouch pack	\$4.76	\$4.80	September 3, 1989
2-litre carton	2.40	2.42	
4-litre pouch pack	\$4.60	\$4.64	January 1, 1989
2-litre carton	2.32	2.34	
4-litre pouch pack	\$4.56	\$4.60	August 1, 1988
2-litre carton	2.30	2.32	
4-litre pouch pack	\$4.36	\$4.40	January 4, 1988
2-litre carton	2.20	2.22	
4-litre pouch pack	\$4.28	\$4.32	December 28, 1986
2-litre carton	2.16	2.18	
4-litre pouch pack	\$4.08	\$4.12	December 29, 1985
2-litre carton	2.06	2.08	
4-litre pouch pack	\$3.92	\$3.96	May 26, 1985
2-litre carton	1.98	2.00	
4-litre pouch pack	\$3.76	\$3.80	August 26, 1984
2-litre carton	1.90	1.92	

The Commission sets the producer price for milk utilized in Class I and Class II, while Farmers Co-operative Dairy Ltd. sets the price for milk utilized in Class III. Prices paid to producers for milk sold outside the province are determined by prevailing prices in those markets.

As a general guide, milk consumed in liquid form is Class I; milk utilized for cheddar cheese is Class III (a) and milk processed into skim milk powder and butter is Class III (b). Milk not utilized as Class I or III is processed into other dairy products and paid at the Class II price.

Table V
Producer Base Prices per Hectolitre of Milk*

		Nova Scotia Mainland	Cape Breton Island	Effective Date
Class I		\$59.85	\$60.82	September 3, 1989
		58.70	59.67	January 1, 1989
		57.70	58.67	December 28, 1986
		55.41	56.38	December 29, 1985
		53.66	54.63	May 26, 1985
		51.41	52.38	August 26, 1984
Class II		42.00	42.00	September 3, 1989
		41.61	41.61	February 15, 1988
		41.03	41.03	August 10, 1986
		40.23	40.23	August 26, 1984
		39.20	39.20	April 26, 1984
		38.38	38.38	April 16, 1984
		37.73	37.73	January 16, 1984
Class III	(a)	40.81	40.81	August 25, 1989
	(b)	39.01	39.01	
	(a)	40.42	40.42	February 1, 1988
	(b)	38.62	38.62	
	(a)	39.84	39.84	March 29, 1987
	(b)	38.04	38.04	
	(a)	38.84	38.84	August 1, 1986
	(b)	37.34	37.34	
	(a)	38.04	38.04	August 16, 1985
	(b)	36.54	36.54	
	(a)	37.01	37.01	August 1, 1984
	(b)	35.51	35.51	
	(a)	36.19	36.19	April 1, 1984
	(b)	34.69	34.69	
	(a)	35.54	35.54	January 1, 1984
	(b)	34.04	34.04	

*Basis on 3.6 kilograms of butterfat per hectolitre

Changes to the Class II and III prices in Nova Scotia generally follow the federal target return level and support prices for butter and skim milk

powder. The target price was increased in August 1989 to \$47.45 per hectolitre. The support price for butter increased to \$5.157 per kilogram and the skim milk powder price increased to \$3.046 per kilogram.

Table VI
Federal Dairy Product Support Prices

Skim Milk Powder	Butter	Target Return Level	Effective Date
\$3.046/kg	\$5.157/kg	\$47.45/hl	August 1, 1989
3.013	5.102	47.06	February 1, 1988
2.978	5.035	46.30	August 1, 1986
2.922	4.929	45.68	August 16, 1985
2.85	4.784	44.65	August 1, 1984
2.79	4.71	43.83	April 1, 1984
2.74	4.60	43.18	January 1, 1984

PRICE EQUALIZATION

The system of paying fluid milk producers based on the provincial utilization of milk, rather than the utilization at the plant to which they shipped, began in 1985 and continued to operate smoothly in 1989. For each pay period, the Commission obtains the pertinent information to make the provincial calculations and then acts as a clearing house for the plants who have paid either too much or too little for milk compared to their own utilization.

For the third year in a row, it was agreed there should be no change to the global amount of issued fluid quota because of the relatively static sales situation. An additional 500 litres of fluid quota was created to accommodate the graduated entry program. This is the program by which five members of the Cream and Industrial Milk Producer Group each receive 100 litres of fluid quota and convert their production to fluid milk.

Before the proclamation of the Dairy Commission Act there was some uncertainty over the legality of fluid quota regulations. Accordingly it was decided in 1989 that there should be no recovery of quota from producers who fail to fill their fluid quota during the quota months.

Table VII
Summary of Price Equalization Values 1989

Month	Payout % of Fluid Quota	Fluid Value Cape Breton Is. & Yarmouth Co.*	Fluid Value Other Areas*	Non Fluid Blend Value*
January	81.49	\$59.33	\$58.47	\$40.18
February	82.44	59.26	58.41	40.27
March	81.24	59.29	58.45	40.32
April	80.52	59.35	58.49	40.29
May	77.13	59.40	58.52	40.42
June	76.25	59.85	58.71	40.37
July	75.75	59.50	58.63	40.38
August	77.80	59.41	58.55	40.77
September	82.45	60.18	59.32	41.08
October	83.20	60.40	59.55	40.91
November	83.60	60.34	59.48	41.20
December	82.60	60.49	59.62	40.88

* Price per hectolitre of milk, 3.6 kilograms of butterfat.

Table VIII
Average Returns per Hectolitre Received by Fluid Milk Producers

	1989	1988	1987
January	\$53.02	\$51.98	\$51.34
February	52.85	52.07	51.82
March	52.89	52.11	51.94
April	52.59	52.19	51.51
May	52.21	51.54	51.56
June	52.02	50.50	50.85
July	51.88	51.50	50.72
August	52.20	51.01	51.59
September	53.98	52.16	52.01
October	55.03	53.59	52.72
November	55.31	53.97	53.11
December	54.88	53.06	52.48

Table IX
Annual Returns to Fluid Milk Producers

Year	Annual Production (litres)	Total Payment	Average Value per Hectolitre	Average Butterfat Test—Kg
1989	170 500 370	\$90 758 109	\$53.23	3.70
1988	174 749 666	91 043 062	52.10	3.68
1987	172 588 160	89 393 163	51.80	3.69
1986	175 015 215	87 165 957	49.80	3.68
1985	168 227 955	81 493 963	48.44	3.71

BULK MILK HAULING RATES

The Commission has responsibility for setting the rates at which producers are charged for hauling their product from the farm to the processing plant. For this purpose Commission staff conducts an analysis of all haulage costs. Based on the information provided by this Bulk Haulage Cost Review, some new haulage rates were approved by the Commission in 1989.

Table X
Schedule of Bulk Haulage Rates — Farm to Fluid Plants

Transporter	Maximum Rate per Hectolitre	Effective Date
Farmers's Co-op Dairy Ltd.	\$2.14	January 29, 1989
Scotsburn Co-op Services	2.10	May 28, 1989
Curtis Fisher	1.66	January 29, 1989
Rudy Burghardt	1.52	January 29, 1989
Cook's Dairy Farm Ltd.	1.26	May 28, 1989
Delivery to Cheese Plant from Yarmouth	4.786	January 29, 1989

MARKET SHARING QUOTA

The supply management system in Canada for industrial milk is known as the market Sharing Quota (MSQ) Program. All provinces except Newfoundland, which does not produce any milk in excess of fluid requirements, are signatories to the National Milk Marketing Plan.

The objective of the program is national self-sufficiency in industrial milk production on a butterfat basis. A committee of provincial representatives under the chairmanship of the Canadian Dairy Commission is responsible for policy development. The committee establishes a national quota in butterfat based on the estimated demand for dairy products in Canada, plus the volume required for a small export program, and the plan sets forth the relative provincial shares.

The federal government supports the program with import controls on dairy products, support prices for butter and skim milk powder, and direct subsidy payments to producers. The government also absorbs certain costs associated with the offer-to-purchase program for skim milk powder and butter.

Each province allocates its respective share of the national MSQ among producers according to its own policies. The Nova Scotia Dairy Commission administers the program on behalf of the milk and cream producers. Policies are developed in consultation with the Nova Scotia Milk Producers Association and the Cream and Industrial Milk Producers Association and with the assistance of a Dairy Industry Advisory Committee.

Nova Scotia has for several years felt that it had a legitimate case for obtaining additional MSQ. In 1989 the Province was finally able to convince the other members of the Canadian Milk Supply Management Committee that this should be done. In September 1989, the Province, along with British Columbia, was awarded a 5.1 per cent increase in its MSQ allotment. The increase was retroactive to August 1, 1988. As a result of this retroactive increase, Nova Scotia's MSQ utilization for the 1988-89 dairy year was 99.5 per cent. At the national level, utilization increased to 102.8 per cent from 102.6 per cent.

Under the National Milk Marketing Plan, milk and cream producers are responsible for the costs associated with the export of dairy products that are not required for domestic consumption. In meeting Canadian requirements for dairy products on a butterfat basis, there is a surplus of skim milk powder to be exported as well as over-quota production. The Canadian Milk Supply Management Committee determines the provincial levy responsibilities and allows the individual provinces to determine the levy rates. Levies are deducted from producer payments by the processors and are forwarded to the Canadian Dairy Commission by the Nova Scotia Dairy Commission on a monthly basis.

Table XI
National Market Sharing Quota Entitlement and Utilization

August 1988 — July 1989
(Millions of Kilograms of Butterfat)

Province	Date of Entry	Authorized MSQ	%	Production	% Utilization
Nova Scotia	April 1, 1974	2,249	1.3	2,237	99.5
New Brunswick	April 1, 1974	2,234	1.3	2,352	105.3
Prince Edward Island	December 1, 1971	3,207	1.9	3,172	98.9
Québec	December 1, 1970	81,070	47.5	83,479	103.0
Ontario	December 1, 1970	53,050	31.1	54,647	103.0
Manitoba	July 1, 1972	6,612	3.9	7,003	105.9
Saskatchewan	July 1, 1972	4,402	2.6	4,499	102.2
Alberta	April 1, 1972	11,353	6.6	11,453	100.9
British Columbia	October 1, 1973	6,571	3.8	6,716	102.2
Total		170,748	100.0	175,558	102.8

Table XII
Nova Scotia MSQ Production
(Kilograms of Butterfat)

Producers	1988-89	1987-88	Change	%
Fluid	2 043 214	2 090 378	- 47 164	- 2.2
Industrial	98 081	98 311	- 220	- 0.2
Cream	97 449	120 626	- 23 177	-19.2
Total	2 238 744	2 309 305	- 70 561	- 3.1

Levy rates established at the beginning of the 1988-89 dairy year were lower than the previous year rates. Lower in-quota rates, and the elimination of over-quota levy obligations due to the year end provincial increase in MSQ, resulted in a significant decrease in levy payments by Nova Scotia producers, from \$4,773,657 in 1987-88 to \$2,070,443 in 1988-89.

Nova Scotia producers received a total of \$3,461,000 in subsidy from the Canadian Dairy Commission in 1988-89, a 3 per cent reduction from 1987-88.

The authorized MSQ for Nova Scotia at the start of the 1989-90 dairy year was 2.249 million kilograms of butterfat. Improving prices for dairy products on the world market enabled the Canadian Milk Supply Management Committee to agree to a retroactive adjustment of approximately \$.50 per hectolitre on all in-quota milk shipments the previous year and a reduction in levy rates to the following schedule.

Table XIII
Nova Scotia Levy Rates for 1989-90

Fluid Producers	Production up to 100% of MSQ	\$ 3.39 hl
	Production over 100% of MSQ	28.71 hl
Industrial Producers	Production up to 100% of MSQ	2.90 hl
	Production over 100% of MSQ	28.71 hl
Cream Producers	Production over 100% of MSQ	4.00 kg

National quota levels and levy rates are reviewed at the January meetings of the Canadian Milk Supply Management Committee and adjustments may be made if deemed necessary.